

**Improving the Budget Process:  
Technical Assistance to Gdynia, Ostrow Wielkopolski  
and Rejowiec Fabryczny**

**Initial Assessment**

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## ATTACHMENTS

**Attachment A--Workplan for Rejowiec Fabryczny**

**Attachment B-Memorandum of Understanding with Rejowiec Fabryczny**

**Attachment C- Memorandum of Understanding with Ostrow Wielkopolski**

## EXECUTIVE SUMMARY

The United States Agency for International Development (USAID) Municipal Finance and Budgeting Pilot Cities Project is an outgrowth of over two years of technical assistance in municipal finance and budgeting to local governments in Poland. Based on the success of the assistance in Krakow, Poland and other cities, USAID agreed to sponsor three pilot workshops which were presented in March, April, and June, 1996. From the cities that participated in the workshops, three were selected to receive additional technical assistance based on their interest in the project: Rejewiec Fabryczny, Ostrow Wielkopolski, and Gdynia.

Technical assistance teams, including a municipal finance expert from the United States, a staff member from the Municipal Development Agency in Krakow (MDA/Krakow) and a Polish financial consultant provided by the Cooperation Fund, were formed for each of the pilot cities.

The teams will work with each of the cities to implement program or task budgeting over the next two years. The pilot cities' experiences will be included as case studies in future editions of the *Improved Budgeting Practices Manual*. The purpose of the first visit was to assess the cities' readiness to implement task budgeting and to develop a memorandum of understanding between the technical assistance team and each city.

### *Gdynia*

Mr. Steve Bauer and a team of three Polish consultants from the MDA/Krakow, MISTIA and Uniconsult were chosen to work with the City of Gdynia. The team found Gdynia to be progressive, well managed and already engaged in development of "Task Budgeting". Tasks were developed as part of the 1996 budget. Task costing is to be included in 1997. The consultant team was concerned that the short implementation time frame as well as the adequacy of the information systems to support full task costing and reporting. The team was asked to provide training and advice based on the Krakow model and methodology of Task Budgeting. Because a relationship was already established between the MDA/Krakow and the City of Gdynia, a memorandum of understanding was not signed.

### *Ostrow Wielkopolski*

Mr. Mark Jinks and consultants from the MDA/Krakow, Financial Services, Ltd., and Uniconsult provided budgeting technical assistance to the City of Ostrow Wielkopolski. The City is already engaged in significant reform projects, such as the issuance of general obligation bonds, the planned creation of a municipal shareholding company and building one of the most advanced drinking water treatment plants in Poland. The team found that the City of Ostrow Wielkopolski is very committed to program budget reform. The greatest problem the city faces in implementing program budgeting is the lack of time and the lack of detailed participation by

departments in planning and training for program budgeting. A memorandum of understanding was signed by ICMA and the City of Ostrow Wielkopolski to continue program budgeting technical assistance.

#### *Rejowiec Fabryczny*

Mr. Winston Evans led a four member team to Rejowiec Fabryczny. The team included: Mr. Piotr Jaworski, Consultant, Financial Services; Ms Izabela Kozinska, Consultant, MDA/Krakow; Mr. Krysztof Domanski, Lublin School of Business; and Ms. Zofia Wislocka, Interpreter. The mission of the team was to assess the City's ability and willingness to participate in improving budget practices, including development of a program budget. The team met with the Council President, Treasurer, Deputy Treasurer and various departmental representatives involved in key budget, management and program initiatives. The City appears to be willing and able to implement program budgeting reform. A memorandum of understanding was signed to continue the technical assistance.

# Gdynia

*Stephen Bauer*

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## 1. INTRODUCTION

The visit to Gdynia is the first in a series to assist the City in development of program/task budgeting. The purpose of the visit was to assess the City's ability and readiness to undertake such an effort and identify needed support from the technical advisors. In addition, a function of the visit was to expose potential Polish consulting and training advisors to on-site needs and conditions.

The team visited Gdynia in August of 1996 and found that the City is already fully engaged in the development of task budgeting. Tasks were identified and included in the 1996 budget. Costing for tasks is to be included in the 1997 budget. The principal need identified by the City at this point is for training by MDA/Krakow on the budget techniques and methodology of Krakow's Task Budgeting system. Further training conducted by MDA/Krakow is scheduled for September 1996.

## 2. OBSERVATIONS/ASSESSMENT

The following is an overview of financial systems of Gdynia as they were reviewed on this visit. These categories follow the training which ICMA, MDA/Krakow and others sponsored earlier on improved budgeting practices.

**2.1. Citizen Involvement.** Gdynia encourages citizen involvement in several interesting ways:

- Some Council members are apparently elected by district. The President reports that these Council members are often so protective of their districts that some want to calculate taxes paid by their constituents to see that all taxes are returned to their districts in services. A major avenue for citizen participation seems to be lobbying Council members.
- Key staff and elected officials attend community meetings with citizens. Results are published in the newspaper.
- The City has created District Councils and allots a per capita amount (2.5 zl) for each resident. Residents can then recommend spending priorities for the funds.

- The City used to do exit surveys of City Hall customers and based bonuses on survey results. However, the practice was stopped because some functions like the tax office never got positive ratings and citizens were sometimes lobbied for favorable responses.
- The Council has not done general surveys of citizens and it does not hold hearings on the budget or priorities.

**2.2. Priority Setting.** The Council does not directly set priorities prior to construction of the budget. However, departments suggest priorities to the Executive Board which edits and forwards the proposed priorities to a Council committee for review and comment. After a second review by the Executive Board, the priorities are returned to the full Council for adoption.

The City seems to be interested in long-term goals with strategic plans for their implementation. Task Budgeting is seen as one tool in helping achieve these goals.

**2.3. Financial Forecasting/Modeling.** In 1996, USAID funded the creation of a two person "forecasting" office within the Planning Department tasked with general social, physical and financial forecasting in support of the general plan of the City. Although one of the system's objectives is to support the budget, it is not a true budget forecasting or modeling system. There is a general lack of understanding about the difference and a resistance to creating a true budget forecast on the grounds that there is too much uncertainty from the central government. The City reports that it produces regular financial status reports but it is unclear about whether the information is reported by department or whether these reports are used to forecast year-end performance.

There is some suggestion that a Central Forecasting Office may do the detailed budget forecasting for large cities rather than relying on the cities themselves to do such forecasting.

The financial information systems (IS) are reportedly "weak" and need improvement. There is no IS system in place for tracking and reporting task-based costing. Gdynia feels that there is off-the-shelf software available that can be installed without modification. Krakow reportedly has been working with a package produced in Gdansk for some time now and still has not fully refined the software.

**2.4. Task Budgeting Has Mixed Support.** Not everyone in the City is a strong supporter of Task Budgeting. The President and Deputy Treasurer are strong supporters of the concept. The Treasurer decidedly is not. He is very concerned about "losing control" that the current mandated line-item budget provides and is insistent that Task Budgeting not be implemented until a software package is in place that tracks costs against the required "Classification" budget format. The Deputy Treasurer is the strongest supporter. She reports that the Executive Board and key department heads are clearly mixed in their support; fearing, among other things, the increased accountability that the new system would impose. Also, there

is a concern that the new system would not allow departments or the Executive Board to respond to unexpected occurrences during the year. Department heads claimed that they are too busy to take on the extra work associated with task budgeting or that their work does not lend itself to measurement. These are fairly standard objections to be expected from operating departments. However, the fact that these objections are being raised a month before departmental budgets based on task definition and costing are due is an indication that preparation for this effort may be inadequate.

**2.5. City Reorganization Efforts May Compound Task Budgeting.** The City is significantly reorganizing to align City structure with its new responsibilities and to give more flexibility in executing City functions. This reorganization is scheduled for adoption on August 28 and will influence the structure of departmental budget preparation.

It is possible that a directive to implement Task Budgeting will be included in the reorganization to be acted on by the full Council on August 28. It is not clear to what degree the Council is aware of the Task Budgeting initiative, even if they voted for it.

**2.6. The City Has Already Begun Task Budgeting Process.** The City required departments to define tasks in the current year budget. The Deputy Treasurer appears to be satisfied that departments completed that task satisfactorily. For the 1997 budget year, the departments have been instructed to submit budgets by late September based on task identification and costing. There seems to have been no training of departments, no training of central budget staff and, even though the city insists that software program is necessary to support task costing and reporting, no efforts have been made to date to review available packages.

The President was advised that the current schedule seems ambitious in light of the experience of Krakow and other cities. She agreed to postpone a trial implementation until next March with full implementation to be scheduled for the 1998 budget year. The President wants to use Task Budgeting in her re-election campaign in 1998. In spite of the extension until March, the Deputy Treasurer insists on proceeding with the schedule of implementing Task Budgeting for the 1997 Fiscal Year, if possible.

We suggested development of a team of financial staff, department heads and Executive Board members to review the Krakow model and tailor it to Gdynia's needs *before* beginning formal training and budget development but the Deputy Treasurer insisted in keeping with the current schedule. Under that schedule, MDA/Krakow would provide training on the Krakow methodology for approximately 30 people early in September and departments would submit Task Budgets in late September.

**2.7. Gdynia has Initiated Other Management Improvements** including contracting out services, spinning off activities to new "enterprise" operations and creation of

intergovernmental organizations to deal with regional issues that confront all cities in this region with a population of one million.

**2.8. Gdynia Has Received Significant Foreign Assistance.** It was evident that Gdynia has availed itself of much foreign technical consulting assistance from the British Government, the Swiss Government, the European Economic Community and USAID. At one point, one of the staff that we met with muttered about getting confused by all these foreign "consultants".) Gdynia has made good use of this assistance to improve City operations.

**2.9. City Would Not Agree To Written Work Plan.** During the final day, the team tried to develop a Work plan with the Deputy Treasurer for next steps in technical assistance and in development of Task Budgeting. The Deputy Treasurer felt that the adopted budget schedule and oral agreements with MDA for training and technical assistance were adequate. Therefore, no written work plan was adopted.

### **3. CONCLUSIONS**

- Gdynia is well managed and progressive. It would complete well with many U.S. cities in terms of the quality of its staff and its management and financial initiatives
- Gdynia will institute some form of Task Budgeting and will benefit from lessons learned in Krakow.
- The time frame and strategic preparation for Task Budgeting appears to be inadequate and threatens the quality of the ultimate implementation of the budget improvements.

### **4. SPECIFIC RECOMMENDATIONS FOR GDYNIA**

#### **4.1. Gdynia should create three committees to implement Task Budgeting**

· **An Oversight/Design Team** of finance staff, key operating departments and Executive Board members should review the Krakow model of Task Budgeting and adapt it as necessary to Gdynia's unique circumstance. The Oversight/Design Team should develop a schedule for implementation of Task Budgeting. The advantage of such a team is that it would adapt rather than impose a mirror-image of the Krakow model on Gdynia. It would also broaden support for Task Budgeting and be available to resolve problems during implementation.



- An **Implementation Team** of central budget staff and key department staff would be intensively trained in task budgeting concepts and techniques and then would become the internal consultants for the departments.

- An **Information Systems Team** would evaluate Gdynia's current financial management IS systems to determine their ability to support Task Budgeting. In addition, this team would review software packages that are available to implement Task Budgeting costing and reporting to determine whether any would be suitable for Gdynia's environment and to plan for the installation and training for the software.

**4.2. Gdynia Should Enhance the Technical Skills of Central Budget Staff.** Gdynia clearly has very ambitious plans for financial management. Key to the success of these plans will be the quality of central budget staff. Given the shortage of individuals with higher technical skill levels, it is imperative to try to retrain existing staff wherever possible. Financial and program analysis skills are an important part of reviewing program and task budgets. The Uniconsult team member could provide such training for central budget staff.

**4.3. Provide Adequate Time for Implementation.** Gdynia needs to develop a more realistic schedule for a quality implementation. It is very unlikely that departments can cope with the re-organization, be fully trained, have systems in place and produce real Task Budgets by the end of September. It is also very unlikely that the City will be able to purchase software to support Task Budgeting that can simply be installed on top of existing financial management systems without modification. The schedule suggested by the Mayor, while still aggressive, is more reasonable.

**4.4. How Will the Results of Task Budgeting be Used to Improve Processes?** Task Budgeting will produce an important management tool which can be the foundation for many other initiatives the City wants to pursue. However, it is unclear if Gdynia has thought about how to use Task Budgeting to actually improve tasks. Some of the following issues need consideration:

- How does quality get factored into tasks?
- How do levels of acceptable performance get set once tasks are defined and measured?
- How do work teams improve task performance once expectations are set? What tools or training will they be given? TQM? Work process analysis?

**4.5. The Need for Further ICMA Assistance in Gdynia is Unclear at this Time.** It appears that Gdynia is currently focused on the technical implementation of Task Budgeting and currently desires detailed support from MDA-Krakow on the Krakow effort. The ICMA consultant is not familiar with details of the Krakow system. ICMA can bring a strategic

systems overview to the Gdynia project as well as local government operating perspective to the Polish consultants.

## **5. GENERAL OBSERVATIONS/CONCLUSIONS**

**5.1. MDA/Krakow Needs to Develop TA Strategy.** MDA/Krakow is just beginning to function in the role of external consultants to cities outside Krakow. As such, it is important for MDA/Krakow to define its method of delivery. Even though MDA/Krakow is located “in country” it is unlikely that it will have the resources to serve as internal consultant to other cities in the same fashion that it has served Krakow. It is more likely that MDA/Krakow can train one or more internal consultants for each city and then support that internal consultant. This can be done through the implementation of the recommendations above to create an internal Oversight/Design Team and by intensive training of central budget staff in each city.

**5.2. Include Other Models for Cities to See.** Krakow is certainly a valid model, however, it seems to be extremely intensive form of Activity Based Costing or Task Budgeting that simply may be beyond the capacity or interest of some cities. In addition, Krakow has done more than just the task reporting of the budget. Issues such as citizen involvement, Council priority setting and financial forecasting seem to be overlooked in the budget training. Certainly, Lublin has developed its own approach which should be shared with other cities. The danger in using the Krakow “example” is that cities can easily fail to understand that Krakow is just *an option* and that there are other options to choose from. The danger is exacerbated when MDA-Krakow is part of the team and has experience (and ownership) only with the Krakow model.

**5.3. Emphasize Ability to Customize Krakow Methodology.** Cities need to understand that it is not necessary to adopt the Krakow model in rote version. A schematic outline of the Krakow system that identifies alternative choices at important points in the system would allow cities to decide how intensive a system of ABC/Task Budgeting they wanted to implement.

**5.4. Translate Pertinent ICMA Publications.** ICMA has publications that are extremely pertinent to this and other management issues for Polish cities. For example, *How Effective Are Your City Services* is one of the best guides to task and outcomes development. ICMA also publishes a guide on conducting citizen surveys. USAID funds should be used to translate and distribute some of these publications to expand technical assistance to many more Polish cities than can be covered in on-site visits. These publications could also be used as the basis for specific training sessions.

**5.5. Help Establish a Comprehensive Municipal Advisory Center and/or Augment the Role of the Municipal Development Agency.** One key in the development of local

government in most states in the U. S. have been state level organizations of governmental research and service. In conjunction with universities or state municipal leagues, these organizations provided one-stop service on a wide-range of municipal management issues ranging from elected official training to financial and human resource management to land use and development and legal issues. Long-term capacity building within the country will benefit from borrowing from the American model and developing one organization with one or more satellites, affiliated with academic institutions and local government associations to provide the full range of technical assistance and research on local government and inter-governmental issues for Poland. Creation of something like an Advisory Committee on Intergovernmental Relations might also be worth exploring in order to focus on relationship issues between central and local governments.

**5.6. Emphasize Development of Internet Access and Use Inside Poland and Between Poland and U.S.** The Internet is an extremely effective, low cost tool for communication and information sharing. Significant partners on both sides of this exchange are not currently connected to the Internet. Assistance in developing such access would benefit ongoing communication and technical assistance.

# Ostrow Wielkopolski

Mark B. Jinks

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## 1. Objectives of the Technical Assistance Visit:

- Ascertain the interest of the City of Ostrow Wielkopolski ("OW" or the "City") in implementing task/program budgeting in its annual budget process.
- Determine the feasibility of implementation of task/program budgeting in OW.
- Provide technical assistance to the city of OW in structuring their budget planning, preparation and consideration processes.
- Determine the applicability and feasibility of using (in addition to the Polish Municipal Development Authority - "MDA") Poland-based private-sector business consultants to assist cities such as OW.
- To determine the feasibility of further assistance, and if mutually agreed to by the City of OW, agree to a scope of work with OW for further assistance for their calendar year 1997 and 1998 budget processes.

## 2. List of Participants

### 2.1. Co-consultants and Where Based

- Mark Jinks - ICMA Consultant (Arlington, Virginia, USA)
- Jan Filas - Municipal Development Authority (Krakow, Poland)
- Stephan Perkowski - Financial Services Ltd (Warsaw, Poland)
- Radoslaw Utnik - Uniconsult (Warsaw, Poland)

### 2.2. City (the "Miasta") of Ostrow Wielkopolski

- Miroslaw Kruszynski, President, Miasta
- Stanislaw Krakowski, City Secretary
- Janina Fraczek, City Treasurer
- Urszula Hadas, Director, Finance Department
- Other City Budget and Accounting staff

- Heads of City Departments
- Head of City Computer Operations

## **2.3 Other Contacts**

- At the request of the Mayor two newspaper reporters and a cable television reporter (for interviews on objectives of this USAID-funded technical assistance)
- Alexander Noworol, Director, Strategy and Development, Krakow (contact by Jinks only to discuss city planning and priority setting in Poland)
- John Peterson, Government Finance Group - subcontractor to PADCO/RTI work with OW (contact by Jinks only before the trip to obtain background information on OW and its recent bond issuance, the financial and structural issues currently being faced by Polish cities, and to obtain a copy of OW's recent bond offering statement).

## **3. Achievements**

### **3.1 Meetings Report**

Planning and background discussion meetings were held during the course of the visit by the team of consultants to OW. Unless noted in this report, all consultants attended the individual meetings discussed in the report.

#### **3.1.1 Consultant Planning Meetings Prior to the Visit to OW**

Planning meetings were held with ICMA, US-based consultants, MDA, Cooperation Fund, and private consulting parties to discuss activities to date and response from the three target cities (Gdynia, Ostrow Wielkopolski, and Rejowiec Fabryczny) to the proposed project of implementing task and program budgeting.

A background meeting was held by Jinks with Noworol about Krakow's capital priority setting and decision making processes. Background information about OW obtained.

A discussion with Bueche (ICMA) and Jinks was undertaken about Deputy Mayor Pakonski's upcoming US trip along with MDA-Krakow staffing order to provide desired peer review of Krakow budget process for Polish officials. The result was a rough outline of how Pakonski's objectives of the peer review could be met in conjunction with the ICMA annual conference in early October. Names of appropriate municipal and academic budget experts in the Washington area were also discussed.

### **3.1.2 Mayor's Perspective and Objectives**

A meeting was held with the City President (Mayor) Kruszynski where he discussed the City of OW's first (in Poland) issuance of general obligation bonds (AID/PADCO/RTI project), the first-in-Poland planned creation of a municipal shareholding company (to raise capital and to create tangible ownership by OW's citizens), as well as the building of one of the most advanced drinking water treatment plants in Poland (with subsidized credits from the national environmental financing fund) at a much lower construction cost than has been the norm in Poland.

The Mayor then discussed the need to construct a budget that was based upon the needs of the citizens, in particular creating a budget document and proposed plans which would educate the citizens about the needs and accomplishments of the City.

The Mayor explained that while the prior citizen survey had identified road conditions as the top issue with citizens (and led to the bond issuance for roads), he was convinced that the development of the task budget would be convincing to citizens (i.e. in language that they could understand) so that real priority needs could be met. The judgement that the Mayor had made was that the current category budget (line item type) as driven by national legal requirements on account classification and reporting did not help, and actually hindered, making the best decisions and in targeting funds to priority areas

The Mayor indicated that task planning would also aid in economic development. Being innovative was a way for OW to get the same or better attention as Poland's larger better known cities said the Mayor.

To date the OW City Council had adopted a resolution which endorsed the concept of task budgeting, as well as a forecast of revenues and expenditures for 1997 had been presented to the City Council and subsequently adopted.

### **3.1.3 The Perspectives and Objectives of the City Treasurer**

The City Treasurer (Skarbink), Janina Fraczek, explained in detail the City's budget preparation process to date. The projections for 1997 which have been adopted used projected revenues (using Polish bank economic forecasts for inflation (+15%) and average real wage growth (+5%). This was applied to most revenues (assuming a permitted real estate rate increase). Salaries, wages, and nonpersonnel costs were projected using this economic data. Other fixed factors such as debt service were also factored in. Also a set aside amount for 1997 budget investments (pay-as-you-go capital) has been created in these budget planning projections. Costs for city owned enterprises (i.e. water treatment and distribution) are included as non-

personnel items based upon "what is known" about the costs of buying those services for 1997. There is no apparent attempt to include the various City-owned enterprises in the program and task budgeting efforts of the City for 1997.

An increase in the allowable national tax rates for real property has also been factored in. OW is under the current state tax rates, so if the state does not increase its rates for 1997, the City has rate room to maneuver. The result was a budget that is roughly in balance. This is the planning base for 1997.

The budget preparation timetable then was discussed. When the revenues and expenditures were estimated by the Finance staff, the plans were presented to first to the Executive Board and then to the City Council. In endorsing these the Council set the first framework for developing the 1997 budget. The Council has also adopted a set of social and economic goals for the community which has been written in document/pamphlet form. However these are global and are not specific enough aid in the budget process.

The areas of stated City priorities are:

- health
- public security (not a local task)
- sports and recreation
- culture and art
- urban development
- education
- urban development
- public transport

The 1997 budget process will be aimed at addressing these goals, but there will be mandates outside of the goals which will have to be addressed and refined.

The City Finance staff also discussed its 1996 process was somewhat outside of the traditional line-item exercise, departments were allowed to present their "wishful thinking list" to the Executive Board. This resulted in departments, while detailing as much as they believed that they needed, creating more requests than could reasonably be considered or funded. In this exercise, the Finance Department did not do more than a cursory review of the fiscal details in these requests. The next step was that the Executive Board chose which proposals to send to the City Council for consideration.

The City had apparently based its adopted goals and many of its activities to date on a prior citizen survey several years ago where surveys had been distributed to 1,000 households and then returned (number returned not known by Finance staff) to the City.

The results of the survey were (ranked by citizen concern as a problem) in "problem" priority order:

1. condition of city streets and roads (29% respondents stated as a problem)
2. lack of job opportunities (unemployment)
3. lack of safety and order
4. lack of city aesthetics
5. public transport (mass transit)
6. lacking infrastructure
7. lack of parking, poor cultural opportunities (3% respondents cited this problem)

The top issue of condition of city streets in the citizen survey was a major factor in the City's decision to issue general obligation bonds (7,500,000 PLN) for the construction of new and the rebuilding existing city and voivodship-responsible streets.

It was also discussed that under the communist-era system where local decision making in establishing goals and then expressing that through the budget process was practically non-existent because the local governments were told what to do. As a result, finance/budget positions were not valued highly (paid less than other positions with similar education and experience), and were also filled mostly by women. While current City compensation dealt with the pay inequity situation, the Finance Department is still primarily women, while many departments are still managed by men. As a result, the shift to an economic-based decision making system, not only threatens the traditional powers of the line departments, but also raises gender issues and its social consequences.

To date, subsequent to the Council's adoption of budget guidelines, then departments were given instructions on submitting budget Applications (requests) to the City Finance Department. Departments have also received general background on program budgeting, but to date they have not as yet been asked to divide their operations and associated budgets into tasks.

The balance of the 1997 process was detailed for the consultant. Departments will file their 1997 applications by September 15. Also, a second general obligation bond issuance in order to finance additional capital infrastructure needs is planned for the 1997 budget.

#### **3.1.4 The Cooperation Fund consultants' viewpoint provided to the City based upon the information provided to the city during the first day of interviews:**

Utnik (Uniconsult) discussed that the task and program budgeting as a tool for future financial modeling, planning and motivating staff of the City. He emphasized that by establishing responsibility centers this represented the delegation of responsibility and accountability, making the program and task budgeting more than a front-end exercise. Utnik stated that by



delivering good financial and program information and equipment to a program manager and giving that manager the authority to make decisions that services could be delivered more effectively.

Perkowski (Financial Services) stated that the objective to date of the discussions between the visiting technical assistance team and the City had been to discern where the city was in reforming its budgeting process. His analysis to date that was the results so far were excellent. The issues remaining were what does the City need? What training is needed? How can we help?

The City responded that one area that they needed help in was to define the tasks. A schedule was then developed for the next day's work of the team and the City, with a decision that a division of the two teams into two parts would be the best way to address multiple issues within the limited time available. One group (Jinks, Fraczek) covering managerial issues and process issues, and one (Filas, and the OW Finance staff and, Cooperation Fund consultants) covering the definition of tasks and working through the division of the Finance department budget into tasks as the training example. A meeting with department heads of the City was also planned.

### **3.2 Defining Budget Programs and Tasks**

The City Finance staff (Finance Director and Budget/Accounting staff) met with Filas and the Cooperation Fund consultants in order to use the Finance Department as a training example of how to define the tasks within a functional area. This was accomplished. It is evident that one of the major uninitiated tasks to date was the defining of specific goals and objectives which could be translated into departmental program budget tasks. While departments are aware of the need to do this, specific training in departments has not as yet occurred. Task definition will be an early Fall activity of the City. Given the availability of Filas, the motivation of the City to institute the first task/program budget for the 1997 budget, and Filas' experience in defining tasks in Krakow, it was agreed to (subject to MDA approval) that Filas would return to OW after mid-October to help the City Finance Department further define and finalize the detailing of tasks for all City departments.

### **3.3 City Budget and Financial Management Issues**

The City Treasurer met with consultant Jinks to discuss policy, management and implementation issues related to task budgeting and the reform of the City's financial management practices. Prior to the 1997 budget process (and to a large degree during the 1997 budget process) much of the budget process and related financial management processes have been top-down in origin. Gradually departments are getting more of a role in budget priority setting.

While these processes may be top down, the City leadership (in the form of the Mayor, Executive Board and the Council) have sought structured, specific citizen feedback in the issues

related to the City budget. The previously mentioned city survey is one example. Counselors also have formal meetings to get input from their settlements (i.e. neighborhoods), as well as these settlements have specific formal neighborhood organizations (which receive a small amount of City funding for settlement needs). These neighborhood organizations' leaders also meet formally with the City upon occasion.

The Treasurer and Jinks also discussed the organizational management process change that program and task budgeting can bring. Instead of having a budget based upon Ministry of Finance expenditure classifications (line items), a goal oriented budget aimed at meeting objectives gives departments more specific program direction. Concomitant with that change would logically be the creation of new flexibility for city departments in managing their funds. The theory being that having made departments more accountable for their actions, in order for departments to improve their performance and to meet the new goals and objectives that program and task budgeting creates, it would be important to have departments being given greater flexibility to manage their funds.

Currently, only the Executive Board of the City has the authority to approve changes among the spending categories and subcategories (as defined by the Polish Ministry of Finance under Polish law). Also the national law is less permissive in that (unlike many state laws and practices in the United States) the City can suffer severe penalties (including civil fines on City officials by the Regional Audit Organization - the "RIO") if it overspends a category before the Executive Board has approved a budget reallocation and submitted the budget amendment to the RIO. This punitive straightjacket approach by the national officials, represents an outdated command and control decision making system, aimed at keeping local governments "responsible".

In the United States the legal and administrative practices among most state and local governments is that the legislative body (State legislature or local city or county council) sets an overall appropriation total by major spending category (i.e. an entire city department) and then delegates to the administrative bureaucracy the ability to reallocate among line items and programs during the course of the budget year when the budget is being carried out. Also the assurance of fiscal management occurs when independent accounting firms audit a government (or corporate) financial records and activity after the budget year has been complete. Also in the US, often a government may do an end of year after-the-fact adjustment of total governmental appropriations.

The front-end control by state law and the RIO stifles the effective and responsive budget management by Polish cities. It creates an artificial and overly micro-managed degree of control. Ideally, the Ministry of Finance should amend their systems so that localities (except in areas where the state is providing specific programmatic funding such as grants or specifically targeted assistance) are held responsible for keeping their budgets balanced and in keeping total expenditures by year's end from not exceeding the appropriation total of the City. If true local

self-determination is to occur, the change in the over-controlling Polish law, and the negative consequences it has on the performance of city management, should be addressed.

Also the decision by the City Executive Board not to delegate some budget flexibility to departments (with some degree of checks and balances remaining) also stifles innovation and creativity in meeting the adopted city budget goals for the year. It may be understandable with the RIO penalties (and the administrative court process that goes with it), the Executive Board may be unwilling to create budget flexibility. by empowering departments and/or the Finance Department to self-manage mid-year budget amendments.

### **3.4 1997 Budget Process**

The remainder of the 1997 budget process has been roughly framed by the City Treasurer and Finance staff. By the end of August overall budget figures will be going to the Executive Board (who along with the Mayor functions much like a CEO - or City Manager - would in being the managerial entity for formally proposing the budget to the City Council). Based on the input from the Executive Board, departments the detailed budget will be put together. Departments will be submitting their category/subcategory budgets in detail by mid-September.

During the September to November time-frame the Finance Department develops the overall proposed budget in detail. During this time period the new task and program definitions and calculations of budget amounts in each task/program will occur. By mid-November the budget would have gone to the Executive Board for its comments with those comments being incorporated (not expected to represent substantial change since the Executive Board has been involved in detail in key steps of the budget process to date). By November 15, the budget then goes to Council, and (by state law) the Council needs to adopt its budget by December 31. If the Council fails to act, the RIO enters the picture and sets the budget for the City. The OW Council's practice has been to meet this December 31 deadline.

### **3.5 Departmental Participation**

The consultants met with City Department heads and (at the request of the City) Jinks and Filas discussed the benefits of program and task budgeting from the experience of United States cities and counties, as well as by the more recent and directly applicable Polish-based experience of the City of Krakow. Specific successes in Arlington, Virginia using program and task budgeting in managing programs and in making programs more effective and more efficient were also discussed. Providing examples of how departments could benefit from the new system was also discussed. Change is often feared, new work is often looked upon skeptically, and it is clear that in OW that with the introduction of program/task budgeting, this often-occurring universal bureaucratic reaction has also arisen.

The Director of the Planning department was the most vocal in his skepticism, repeatedly asking for specific examples from the Krakow experience. He dominated the conversation and appeared intent on winning the debate (which is apparently typical of his style). One other department head asked a few questions, and then Jinks concluded with a summary of the benefits of the direction that OW was headed, its multi-year implementation process, its need to constantly seek improvement in a changing environment, and the eventual benefits to department heads in having a more focused-program-oriented set of expectations, which would enhance their abilities to manage their operations.

It is clear that further work and education with departments will be necessary given the skepticism (the degree of which was hard to judge given the reticence of some to speak out

during the discussion and debate), the nature of OW's management style, and the resistance to change evident in parts of the organization.

## **4.0 Conclusions and Next Steps**

### **4.1 Conclusions from the first technical consultation visit**

In preparing for the August 1996 visit to the City of OW by the team of consultants there were a number of questions that the consultants were each asked by ICMA and the Cooperation Fund to answer. These primary questions and the answers appear below:

Question: Is the City of Ostrow Wielkopolski committed to the program/task priority project?

Answer: By the statements of the Mayor and the Treasurer, the City is committed to instituting program/task budgeting. The Mayor has made this clear to the City bureaucracy. The City Council has also passed a resolution which included the endorsement of program/task budgeting for 1997.

Question: Is the City willing to commit the staff resources for a continued technical assistance program?

Answer: The City is willing to commit the resources for an ongoing program. This was specifically listed in the ICMA - City signed agreement which the Mayor signed in a short ceremony (which the City asked the cable television news to tape). The Mayor's attendance at the last meeting of the first technical assistance visit, and his enthusiastic endorsement of the scope of work and the project are further evidence of this evidence of willingness to cooperate.

Question: What are the City's greatest problems in implementing task and program budgeting?

Answer: While the City has endorsed the program and task budgeting to start for the 1997 budget process, the greatest problem appears to be a combination of lack of time and the lack of detailed participation by departments in the planning and training in order to fully comprehend and to be active participants in the defining of tasks and the level of detail that may go with that for 1997 and beyond. Not much attention to outcomes and performance measures by task appears to have been focused on by City staff to date. Automation may become a barrier to effective program/task budgeting implementation. Also a technical problem exists in the area of the allocation of fixed costs (such as building utilities) to multiple programs and tasks.

A final major problem will be the retraining of Finance and department-based financial and management staff to the new paradigms which task and program budgeting bring. Financial staff need to become financial, program and performance analysts and not just remain accounting focused. Eliminating the old systems of category/subcategory financial management and top-down financial control will be major barriers - particularly if it is not possible to find some flexibility within existing Ministry of Finance and RIO regulations and practices.

While these are all problems, most are common in any city or county organization where program or task budgeting has been implemented.

Question: Where can the MDA and the Cooperation Fund be of assistance?

Answer: These two organizations can be of assistance in both the immediate near future (see adopted "Technical Assistance Next Steps"), as well as in the long range. After the Fall 1996 visit, the City will need to review its 1997 budget process, and to begin planning for 1998. Assistance will be needed in this area. Further definition and refinement of the definition of 1996 tasks and program will need to occur. Also a detailed review of the City's technology plan and how it can meet the needs of new financial management systems that program and task budgeting can bring should occur. Also, an examination of City financial management practices (i.e. budget reallocations, departmental reallocation flexibility, financial incentives) could also be conducted. Finally, training of city staff in the area of program analysis, performance measures, and contemporary management techniques (i.e. empowerment, delegation of responsibility, performance contracts, etc) would be useful in order to improve the overall management capability of the City.

Question: What was the effectiveness of the consultants?

Answer: While the overall mission of the trip was accomplished and the next trip planned and agreed to by the City, the team will need to become more effective. Most of the issues that arose did so out of the fact that the team members all work for different organizations and have different experiences (which is preferred because the City will get alternative perspectives on how to address their financial management issues). Not having worked together before created some rough spots. A how-to of consulting (i.e facilitation training, organizational analysis, etc.) would be helpful in making the MDA and Cooperation Fund consultants work become more effective. However, overall given the situation the team functioned well and will be in better condition to function more as a team in the future. It may be useful for the Cooperation Fund and its consultants to work out a more detailed plan of expectations and outcomes now that the first technical assistance visit is complete. It will also be useful for the team to communicate in the next few months (such as the agreed to tasks and program definitions being transmitted to team members prior to the next November technical team assistance to OW)

The private sector consultants provided by the Cooperation Fund were a valuable addition to the team, as their private sector reform experience in Poland and their training in organizational management added a Polish-change reality to the team. It appeared that the exposure to local government and the participation in this project will help those firms develop an expertise in Polish local government management consulting for the future.

#### 4.2 Technical Assistance - Next Steps after the August 1996 visit by the ICMA-MDA-Cooperation Fund consultants.

See the attached agreement signed between the ICMA consultant and the Mayor of Ostrow Wielkopolski and the related scope of work. (Attachment C)

## **5.0 Technical Assistance - Next Steps after August 1996 Visit**

I. Further defining of tasks and working through problems of dividing the City's budget for 1997 into specific programs and tasks.

A. Jan Filas to return on, or soon after, October 16, 1996 to work with Ostrow Wielkopolski Finance Department staff on-site and also Filas to maintain availability via telephone and fax assistance during the period of September to November 1996.

II. Return of the full Technical Assistance Team (November 4 through November 8, 1996) to Ostrow Wielkopolski to undertake the following:

A. Evaluate Draft Task Budget Work to Date:

(1) Documents (Preview of Draft Budget)

(a) Task Definition

(b) Performance Measures

(c) Other Budget Information

(2) Transparency

(3) Review and Discuss barriers (those overcome and those still remaining) and difficulties encountered in preparing the 1997 budget.

(4) Make recommendations on minor changes for the 1997 budget before it is sent in final form to the Executive Board.

(5) Individually interview City department heads on their experiences, ideas and issues related to the 1997 budget process to date, as well as ideas for planning the 1998 process.

(6) Review performance measures the draft proposed budget, and recommend areas for performance measure enhancement for 1998.

B. Review City of Ostrow Wielkopolski budget computerization and automation for budget and accounting, with development of recommendations for future improvement

C. Discuss and develop 1998 budget process and strategies

D. Conduct Training (Areas and topics to be determined by OW prior to the November 4, 1996 team arrival).

E. Review possible areas of further assistance for the City during 1997, and potential schedule for further team visits (depending on sponsor funding and approval).



# Rejowiec Fabryczny

Winston Evans

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## 1. INTRODUCTION

USAID has sponsored work by ICMA, the Municipal Development Agency/Krakow and the City of Krakow to present workshops, "The Budget as a Tool for Local Government Management", to describe the components of program/performance budgeting in the Improved Budgeting Practices Manual and to provide a practical application of task budgeting using Krakow as a case study.

Three pilot workshops were presented in March, April, and June, 1996 to test the manual and to elicit participant comments. The Krakow case study has been updated and comments incorporated into the manual. From the cities that participated in the workshops, three were selected to receive additional technical assistance based on their interest in the project: Rejowiec Fabryczny, Ostrow Wielkopolski, and Gdynia.

Mr. Evans lead a four member team to Rejowiec Fabryczny to work on this project. The team included: Mr. Padre Jaworski, Consultant, Financial Services; Ms Izabela Kozinska, Consultant, MDA/Krakow; Mr. Krszysztof Domanski, Lublin School of Business; and Ms. Zofia Wislocka, Interpreter.

## 2. OBJECTIVES

The overall objective of the project is to provide technical assistance to Rejowiec Fabryczny in the implementation of program/performance (task) budgeting. Rejowiec Fabryczny's experience will be combined with two other cities to provide additional case studies to augment the Improving the Budget Process Manual and the Krakow Case Study on Task Budgeting that were used in workshops conducted earlier in the year.

Specific objectives of the visit to Rejowiec Fabryczny were to:

- develop goals and objectives for local government budget improvements with the Treasurer and staff,
- document the local government's current budget practices and procedures,
- prepare an action plan with the Treasurer and her staff to achieve these goals and objectives during the next 2 months, and
- set a date for another visit by the consultant team to review progress on the work plan and provide additional technical assistance.

### **3. ACHIEVEMENTS**

The consultant team achieved all the objectives of the visit. Specifically, the team:

- interviewed the Mayor, Treasurer, Deputy Treasurer and two key Finance and Taxation Department staff to review and document the current budget processes and procedures,
- prepared, with the Treasurer, a statement of project goals and objectives and a detailed workplan to implement these objectives, (See Attachment B)
- mutually agreed to the dates of a subsequent visit during November 4-10, 1996, (See memorandum of understanding included as Attachment C)
- briefed the Mayor, Chairman of the Town Council and 10 councilors on the purpose of the visit, value of task budgeting and the workplan for Rejowiec Fabryczny, and
- received strong endorsements for the project from the Mayor, Chairman and other members of Council.

### **4. NEXT STEPS**

The workplan assigned specific persons the responsibility to accomplish each step of the four stated objectives with a target date by which the step is to be completed. Work is expected to be started immediately as indicated in the work plan. The team and representatives from Rejowiec Fabryczny exchanged fax numbers to facilitate contact and technical assistance in the interval between visits. (See Attachment C) A subsequent visit is planned for November 4-10, 1996. During this later visit, the consultant team will discuss how the project should advance and whether continuation is desirable.

### **5. ASSESSMENT OF CITY CAPACITY AND WILLINGNESS TO IMPLEMENT BUDGET IMPROVEMENTS**

Rejowiec Fabryczny has the capacity and willingness to implement the budget improvements outlined in the work plan. This conclusion is based on the following qualities that were observed on this visit.

Leadership: Excellent. The Mayor, Treasurer and City Secretary are strongly committed to this project. The Chairman of the Town Council and interested members of the Council were briefed on the project and verbally endorsed the work of the consultant team and value of task budgeting.

Attitude: Excellent. Every person we encountered was positive, upbeat and confident; Elected officials and Treasurer see change as positive rather than negative.

Commitment: Excellent. Strong supportive statements from the Mayor, Council, Treasurer and Finance key staff were common. The commitment of department heads is unknown because they have not been brought into the project; however, the Treasurer indicated that there will not be a problem as the Mayor can be very persuasive.

Knowledge of Task Budgeting: Good. The Treasurer attended two of the USAID/ICMA sponsored budget workshops and brought a key finance staff member to one and a council member to another. Other members of the Finance staff and the department employees will have to be trained on task budgeting.

Staffing. Normal. The town is small and the Finance staff is too. The Treasurer and her key staff are accountants which is to be expected in local self governments that have done just traditional budgeting. The Treasurer is the only budget officer. The Treasurer is aware of the need to bolster/retrain the staff to address the increased demands of task budgeting. The Mayor is also aware of the possible organizational impacts of task budgeting and appears supportive. The workplan undertakes task budgeting in only one department in the 1997 budget to respond to this issue. The experience gained in the pilot project will be used to assess the need for future years staffing changes.

Computer Systems and Use. Currently Weak. The city has computerized some aspects of service delivery, but not in budgeting or accounting. Budgeting, record keeping and preparation of accounting reports are done manually. The town has purchased personal computers and has the latest software (Microsoft Office) but has not made use of the technology (Word and Excel) they have in the finance function. Changes are forthcoming however. A Local Area Network has been approved in the investment budget for 1996 and is expected to be installed in 1997. Purchase of an automated accounting system is planned thereafter. The workplan addresses the need to use the information technology they have and to train their staff on the use of this hardware and software to automate many of these tasks now done manually in budget preparation.

## **6. LIST OF CONTACTS MADE**

During this visit, the consultant held meetings with the elected and appointed municipal officials in Rejowiec Fabryczny to gather the needed information and to develop the above mentioned work plans. These officials included: Mr. Stanislaw Bodys, Mayor; Ms Maria Patra, Chairman of Town Council; Ms. Urszula Bidanska, Treasurer; Ms Ewa Pisaraka, Deputy Treasurer; Ms Krystyna Pawlos, Inspector of Accounting; Ms Bozena Filipczuk, Head of Tax Section; Ms Franciszka Koziol, Inspector; and Malgorzata Stojanska, Cashier. He also briefed 10 members of the Town Council.